



Investment Office

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April 17, 2006

AGENDA ITEM 7a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Extension to Supplemental Savings Program
Contract with CitiStreet for Third Party Administration
- II. PROGRAM:** Supplemental Savings Programs Division
- III. RECOMMENDATION:** Approve amendment of the contract to extend
services for six months to facilitate negotiations and
cover the transition and conversion of the plans to a
new recordkeeping, custody, and investment platform

IV. ANALYSIS:

Background

The Supplemental Savings Programs Division (SSPD) contracts for third party administrator services with CitiStreet. These services include participant recordkeeping, customer service, marketing and enrollment for the CalPERS 457 Program. CitiStreet also performs participant recordkeeping for the Peace Officers' and Firefighters' Defined Contribution Program. The current contract was competitively bid under Competitive Solicitation No. 98-220, as approved by the Board at its June 1998 meeting (see Benefits and Program Administration Committee in Agenda Item 4 of its June 16, 1998 meeting). The solicitation was approved for a five-year term with two one-year extensions. The current contract is in its second extension and expires on June 30, 2006. Staff's recommended selection of the current contractor was ratified by the Board at its meeting of February 17, 1999.

Discussion

Staff began development of a Competitive Negotiation Solicitation (CNS) for third party administrator services in September of 2005, anticipating a release of the CNS in November or December of 2005. This would have provided sufficient time prior to July 1, 2006 to receive and score proposals, award a contract and allow for three or four months transition if a new administrator were selected.

However, staff was delayed in development of the CNS. Part of the delay was due to a desire to test the marketplace with a different approach to the scope of services. Rather than seeking a single contractor to perform all the services, staff wants to receive proposals on both a "bundled" and "unbundled" approach. We believe this may allow additional contractors to bid who might be able to perform portions of the services, but not the entire range of services. This change in concept proved more difficult than we had anticipated to fully articulate in the CNS, especially with regard to the scoring. The internal review and approval of this more complicated RFP also took longer than anticipated.

The CNS schedule now calls for release by April 7, 2006 with the final selection to be made by the second week in June. If the final selection is someone other than the current contractor, a conversion of participant records will be required. Such conversion is complicated and exacting work, which is estimated to require three to four months to complete.

Staff is requesting a six-month extension of the current contract with CitiStreet in order to provide a cushion of flexibility for contract negotiations, and adequate time for a smooth and trouble-free conversion, should a conversion be necessary. Although language in the current contract with CitiStreet allows for a six-month period for conversion to a new recordkeeper in case of termination, there is some ambiguity in the language. Staff, in consultation with the Legal Office, believe it is in the best interests of all parties to extend the current contract, and include specific language concerning the conversion.

Pursuant to Board Resolution 92-04B-2, the Board may approve the extension of this contract by making a finding that the extension meets the fiduciary duties of the Board, that the current contractor can competently and expeditiously provide the services at a reasonable fee, and that the selection is based on a CalPERS Best Business Practice necessary to ensure the prompt delivery of benefits and related services to CalPERS members and beneficiaries; maximize investment returns while minimizing for risk of loss; or defray reasonable expenses of administering the system.

Staff is requesting this extension as a safeguard to ensure that no disruption of services occurs in the event contract negotiations extend longer than anticipated or a conversion to a new recordkeeping system is necessary pursuant to the

outcome of the CNS underway currently. Transitioning records, assets and services from one administrator to another requires coordination and testing between the two to ensure a smooth, accurate transfer of responsibilities. It is a standard business practice to run the recordkeeping systems in parallel to make sure that the new recordkeeper is ready to receive and accurately process plan transactions, while the current recordkeeper maintains the continuity of services to participants. Best practice also demands that the hand-off of responsibilities at the point of conversion take place efficiently to avoid prolonged blackout periods where participants' assets may be out of the market. Sufficient preparation to achieve a smooth handover of responsibilities helps minimize the risk that participants will be out of the market during the conversion. The current contractor, which has been providing services under compensation rates negotiated with staff will continue providing services under the same terms and compensation rates until such time as a conversion, if necessary, is completed. Staff believes the conditions for granting the extension are satisfied and recommends the Investment Committee make such a finding and approve the six-month extension of the existing contract.

V. STRATEGIC PLAN:

This item supports Goal V, by providing sustainable pension benefit products and services responsive to and valued by members, employers, and stakeholders.

VI. RESULTS/COSTS:

Extension of the current contract to cover the transition period and conversion to a new third-party administrator, if necessary, will not result in additional cost to participants or to CalPERS. The current contractor will continue services under the same terms and compensation rates authorized under the current contract until such time as the conversion is completed, at which time its services will be terminated. Compensation of the new contractor will commence upon the effective date of conversion. Expenses incurred by the new contractor prior to the effective date of the conversion, including set-up costs for recordkeeping, custody, and administrative service systems, will be amortized over the term of the new Agreement according to the compensation rates negotiated pursuant to the CNS. Should the current contractor be retained, the extension of the current contract that staff is requesting will be terminated upon the effective date of the new contract. These and all other expenses of the program are funded by asset-based fees paid for entirely by the program participants.

Members of the Investment Committee

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